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RUEHGZ/AMCONSUL GUANGZHOU 0823
RUEHCN/AMCONSUL CHENGDU 0843
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RUCPDO/USDOC WASHDC 0160
RUEATRS/DEPT OF TREASURY WASHINGTON DC
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TREASURY FOR OASIA - CUSHNER
TREASURY FOR AMBASSADOR HOLMER,
TREASURY FOR TAIYA SMITH
TREASURY FOR DAN WRIGHT
USDOC FOR ITA DAS KASOFF
USDOC FOR ITA/MAC/OCEA - MCQUEEN
NSC FOR TONG, SHRIER

E.O. 12958: N/A

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SUBJECT: CODEL HASTERT VISITS SHANGHAI

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distribution outside USG channels.

11. (SBU) Summary: On August 10- 12, Representative Dennis Hastert (R-IL), Representative John Shadegg (R-AZ) and two staff members from the House Committee on Energy & Commerce visited Shanghai to engage U.S. businesses energy, environment and business climate issues. Representatives from GE showed the delegation its R&D labs and discussed the business potential created by an increased interest in fuel efficient energy and improving the environmental. During a separate meeting, Caterpillar representatives said the company was trying to align itself with the government's environmental and energy objectives by, among other things, actively working with coal mines to extract and efficiently use methane. The delegation also toured the Illinois Tool Works Paslode Fasteners plant and discussed the company's experience in exporting fasteners. During a roundtable meeting, Shanghai AmCham and U.S. China Business Council (USCBC) members discussed energy sector-related business opportunities in China and urged more USG work on market access and standards setting issues. The group also voiced concern over the China-related trade bills pending in Congress. The delegation also met with members of the Shanghai Municipal People's Congress and a member of the National People's Congress to discuss potential areas of cooperation on energy issues. End Summary.

GE - A Lot of Room to Grow in China

12. (SBU) GE's China Region Infrastructure CEO Andy Solem briefed the delegation on GE China's six business groups and the company's potential for growth in the China market. Of all GE's business opportunities in China, the energy sector had the most

potential, especially in the sale of turbines. In 2006, GE did approximately 3 billion worth of energy-related business in China. GE could produce twice as many wind turbines as it currently does and still not meet the demand in China. China's water problems also created opportunity for growth because GE had the experience and technology to help with water conservation and purification. The health care market was also poised for growth, although political issues had temporarily chilled the atmosphere. GE also worked on such projects as turning coal into feed for plastics. Solem noted that except for inland areas that lacked financial resources, the Chinese Government was only looking for products not financing. GE has aligned its strategies with Chinese Government industrial policies and priorities and had been able to sign several memoranda of understanding with the Chinese Government.

Caterpillar (CAT)

13. (SBU) The delegation also met with Caterpillar China General Manager for Business Ventures Danny Davis, Vice President of CAT Logistics Patrice Groisiller, Marketing Manager of CAT Remanufacturing Adrian Koh, and other CAT representatives. Davis provided a presentation on Caterpillar's business in China and its various JVs with Chinese companies. The company's main strategy was "to produce in China for China." Caterpillar established an office in China in 1996 and now has thirteen facilities, seven of which are manufacturing centers. They produced hydraulic excavators, compactors, diesel engines, undercarriage, iron castings, motor graders, track-type tractors, wheel loaders, remanufactured products machinery components, and electric power generator sets. Caterpillar estimated its total investment in China would be USD 4 billion

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by 2010.

14. (SBU) Davis particularly noted Caterpillar's work with coal mines to help extract and efficiently use methane gas. Caterpillar has aligned itself with the Chinese Government's strategy to improve the environment and viewed this as a great business opportunity. Davis added that if the Chinese Government did a better job enforcing environmental laws, it would create even more business for the company. Koh discussed the growing demand for remanufacturing in China as the country had realized the potential monetary savings as well benefits for energy conservation and the environment. Caterpillar mainly remanufactured locomotives. Groisiller said that CAT's logistics services generated over USD 2.4 billion a year and that China was moving to "just in time" supply. Given that China's transportation infrastructure was still developing, CAT focused on bringing reliability to the supply chain.

Meeting with Illinois Tool Works (ITW) Paslode Fasteners

15. (SBU) During a visit to Illinois Tool Work (ITW) Paslode Fastener, General Manager Tian Yan Ci gave a short presentation on the company's Shanghai factory. Tian said the company established its factory in the Songjiang Export Processing Zone in March 2006, with the initial investment USD 30 million. The factory produced fasteners for use in construction, furniture making and other relevant industries. All of the company's products were exported to the United States and the company had experienced rapid growth since it was established. Tian also noted the company faced anti-dumping issues in the United States.

U.S. Business Sees Opportunity in China's Drive for Sustainable Energy

¶6. (SBU) In a roundtable hosted by AmCham Shanghai and U.S.-China Business Council, business representatives discussed energy sector-related business opportunities in China, U.S. competitiveness, market access and standard setting issues, as well as the current China-related bills in Congress. Managing Director for Emerge Logistics Jeff Bernstein opined that the U.S. may be at risk of falling behind China in important energy-related technologies and said China's emphasis on such technologies presented a huge business opportunity for U.S. firms. For example, U.S. companies were selling precipitators to coal burning power plants. Applied Materials China Vice President and Chairman Vice President Chen Rong added that his company had experienced great success in selling solar energy products and saw more growth potential as China focused more on environmentally friendly growth. URS Consulting Shanghai Managing Director and AmCham Shanghai Energy Committee Chairman Simon Lee noted that his committee has worked with Chinese regulatory authorities to influence the regulatory framework and promote opportunities for U.S. businesses that are compatible with environmentally sustainable growth. Although China has sound environmental laws, the laws are unevenly implemented and enforced, which has disadvantaged U.S. businesses.

¶7. (SBU) On general business climate issues, Emerge Logistics Managing Director Jeffrey Bernstein said the United States. Should focus more on market access issues, saying non-tariff barriers are still a major impediment to U.S. exports to China. Also, the United States has fallen behind the E.U. in standards setting and urged the congressmen to increase support for U.S. Department of Commerce standards setting efforts. The Vice President of Tyson Foods Shanghai Rep Office noted that many

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U.S. businesses in Shanghai are concerned about the current China-related bills in Congress that may negatively affect trade. He added his own company has already suffered from trade retaliation by the Chinese and pressed for engagement rather than conflict with the Chinese. Representative Hastert agreed that it was better to pragmatically engage China and added that many of the bills were simply "saber rattling." He also urged businesses to help Congress understand their perspective on how to best make America competitive. Companies also should educate their employees in the United States that their jobs depend on American firms being able to operate in a global environment.

Meeting with Shanghai Municipal People's Congress

¶8. (SBU) During a meeting with Deputy Chairman of the Shanghai Municipal People's Congress (SMPC) Zhou Muyao, SMPC Member Qian Yongming, and National People's Congress Member Yang Bailing, Rep. Hastert noted that China and the United States faced similar energy-related issues and both had vast coal resources. The two countries should work together; China's large talent pool and U.S. technology could solve many problems. Rep. Hastert noted that it was ironically easier for U.S. companies to unlock some of the energy problems in China than in the United States because of regulatory restrictions. Zhou agreed that China and the United States faced similar energy-related issues and said the main issue is how both sides can make the most efficient use of its energy resources. China has set a goal to make more efficient use of energy resources, reducing energy intensity 20 percent by 2010. Since China and the United States had similar goals, it made sense for the two to work together.

¶9. (U) Codel Hastert has cleared this cable.
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